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TO RUEHC/SECSTATE WASHDC IMMEDIATE 3719  
INFO RUEHBS/AMEMBASSY BRUSSELS PRIORITY 0137  
RUEHCV/AMEMBASSY CARACAS PRIORITY 0451  
RUEHGT/AMEMBASSY GUATEMALA PRIORITY 3709  
RUEHMU/AMEMBASSY MANAGUA PRIORITY 2529  
RUEHME/AMEMBASSY MEXICO PRIORITY 6855  
RUEHSN/AMEMBASSY SAN SALVADOR PRIORITY 1097  
RUEHUNV/USMISSION UNVIE VIENNA PRIORITY 0062  
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY  
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY  
RUEAAIA/CIA WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY 0486

C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 001935

SIPDIS

SIPDIS

STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN  
STATE FOR D,E,P, AND WHA  
TREASURY FOR DDOUGLASS  
STATE PASS AID FOR LAC/CAM  
NSC FOR DAN FISK

E.O. 12958: DECL: 10/11/2016

TAGS: ENRG EPET HO PGOV PINR PREL

SUBJECT: HONDURAS: FUEL BID FAILURE AN INCREASINGLY LIKELY SCENARIO

REF: TEGUCIGALPA 1784 AND PREVIOUS

Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

1.(C) Summary: The GOH formally offered to accept bids to supply all the country's fuel requirements October 11, despite a USTR request to delay the bid until a CAFTA-compliance review could be completed. Industry observers, however, question whether the bid will succeed, and even key presidential advisors have stated that the bid makes no economic sense. Meanwhile, Honduran fuel retailer DIPPSA appears to have forestalled a rumored take-over bid by instead signing a co-share deal with London-based trader Trafigura Beheer. Venezuelan fuel company PDVSA still retains an interest in supplying the region and, with PetroCaribe shipments to Nicaragua beginning, may need to soon acquire Honduran storage facilities. End Summary.

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Bids to Be Accepted Without USTR Opinion  
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¶2. (U) The GOH formally offered to accept bids to supply Honduras with approximately 15 million barrels of refined fuel October 11, and the expectation is that the GOH will receive all the responses by October 27. At that point the GOH will take approximately a week to review and evaluate the bids, leaving the final decision in the hands of a select five person commission yet to be named. While conceivably up to fourteen different companies could win in the bid (eight types of fuel, the majority required on both coasts), in reality only two to three companies would be likely to win.

¶3. (C) To support the bid, and to manage the import process once the winner(s) is identified, the GOH has moved to replace the existing unit that sets fuel prices (UTP) with a new organization (CAP) headed by Honduran Lucy Bu. This unit will be in charge of managing the contract process, ensuring compliance, and potentially engineering the financial aspects of the deal. (Note: How payment will flow from the fuel

distributors to the bid winner has yet to be fully explained. End Note.) Per the former Deputy Director of the UTP, Wilberto Pinot, the CAP will initially be run with the same 12 people formerly employed at the UTP, with additional training in key areas like procurement, contracts, and insurance. (Comment: The additional courses may constitute a complete retraining of their job function, since previously the UTP only worked a computer model to determine how prices and margins are set. Pinot also expects that additional subject experts, specifically from the company that recommended and established the bid, SurOil, will be hired. Pinot went so far as to call the future CAP & little SurOil.8 End Comment).

¶4. (C) The bid was sent out despite a request by the USTR that the GOH hold the tender until a CAFTA compliance review had been initiated. To date, USTR has issued no formal opinion concerning the CAFTA-compliance of the proposed bid procedure, but Post is aware of several private companies that are preparing complaints. Those complaints are likely to raise not only the legitimacy of the bid process itself, but also the implied threat to abrogate existing market access rights and to strand current U.S. investment. The GOH is well aware of these concerns and has repeatedly said the process will not result in expropriation of rights or assets, but the GOH has yet to explain to anyone's satisfaction how the bid award process will avoid such an outcome.

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A Bid Destined for Failure?  
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¶5. (C) The most perplexing element of the bid is that

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virtually none of the main players, excluding perhaps presidential advisor Enrique Flores Lanza and activist Juliet Handal, appears to believe the bid will succeed. Honduran business group COHEP has outlined at least 15 legal challenges to the bid from domestic laws, while fuel industry representatives remain convinced that, if the USTR cannot identify significant violations with CAFTA, they will be able to identify issues with the Bi-Lateral Investment Treaty or WTO agreements. Supreme Court President Vilma Morales has mentioned to Ambassador and PolCouns that she considers the bid illegal. Opposition party congressmen, who originally allowed the bid to pass through Congress with a weak endorsement, appear ready to unite against any potential winner when the tender contract is again presented for legislative approval.

¶6. (C) Some advisors to President Jose Manuel Zelaya appear to agree. In an October 4 meeting with EconOffs, Minister to the President Yani Rosenthal stated bluntly that the bid makes no economic sense,<sup>8</sup> and he would prefer another way out of the situation. EconOff has spoken earlier in the year with Treasury Minister Rebecca Santos and Social Development Minister Marlon Lara, who expressed skepticism that a bid tender would work. Vice President of Congress and liberal party member Elizabeth Flores pointedly described the bid to EconOff as &unworkable.<sup>8</sup> More than one minister has described President Zelaya as in an impossible situation that he would love to see go away.

¶7. (C) The bid momentum has largely been sustained by interest groups with a stake in the fuel price setting process, led by the Patriotic Coalition activist Juliet Handal. Dealerships, truckers and other intermediaries that have enjoyed high margins from the inefficient fuel price setting formula have maintained pressure on the GOH to finish the bid process. With their message of bringing lower prices to the consumer, an attack on the transnational importers has resonated strongly with the Honduran consumer. While the margins of the dealers and truckers may be just as high or higher than the transnationals, the companies remain, as one well informed businessman stated, &the easiest target to

start off with.8 The transnationals strong initial counter attack, stating emphatically that they will not join the bid or allow use of their facilities, only worsened their relations with working class Hondurans.

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DIPPSA Signs Deal; PDVSA Looking for Storage  
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¶8. (C) Honduran fuel retailer DIPPSA has reportedly signed a limited deal with London-based Trafigura Beheer, B.V. Per DIPPSA owner Henry Arevalo, DIPPSA will assume administrative control over Trafigura,s twenty-seven PUMA gasoline stations in Honduras while Trafigura would source all of the combined company,s fuel requirements in country (Note: DIPPSA currently sources their fuel from Exxon/Mobil traders. End Note.) Arevalo indicated that a previously proposed deal to buy 50 percent of DIPPSA was scuttled due to uncertainty over the bid. By becoming the primary source of fuel for DIPPSA, which controls about 25 percent of the retail market, Trafigura has effectively set itself up to be a strong contender to win the upcoming fuel bid. (Comment: Texaco facilities would likely still be required to import more than just DIPPSA,s share. Trafigura has considerable storage capacity in Guatemala through its Copensa subsidiary, but transportation and delivery to points in Honduras and neighboring countries would be difficult and expensive. With limited investment obligations in Honduras, however, Trafigura could conceivably come in with a price low enough to win the bid. End Comment).

¶9. (C) Venezuelan national fuel company PDVSA, initially

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attracted to DIPPSA for the Honduran company,s strategically placed storage facilities within easy reach of El Salvador and Nicaragua, seems to have lost out on a purchase in the short term. While there may be a connection with Trafigura (reflets), the current arrangement as defined by Arevalo would limit the company,s use of the key southern tank farm, which is 50 percent owned by Exxon/Mobil. Recent news reports that PDVSA expects to deliver up to 350 thousand gallons of fuel oil to Nicaragua next month puts increased pressure on the company to secure sufficient storage facilities to distribute the fuel. A recent shipment of only 80 thousand gallons now sits in eleven tanker trucks somewhere in Managua awaiting sale. (Comment: Arevalo was interviewed in an October 12 article pointedly stating that PDVSA would not be a reliable supplier, given their recent delivery difficulties in the Dominican Republic. He also clearly outlined PDVSA,s regional supply strategy, ending by stating &I have explained the situation to the ambassador. I don,t believe PDVSA will be an option for Honduras.8 End Comment).

¶10. (C) COMMENT. Unless an unlikely scenario occurs, such as one of the transnationals breaking ranks and participating in the bid, the process is likely to end in failure. Texaco is the key player; without their 800 thousand barrel storage capacity, modern terminal facility and distribution &rack8 for tanker trucks, the bid will be more difficult, and therefore more expensive, to implement. With the most to lose, Texaco has been perhaps the most outspoken of the transnationals against the bid. The industry,s anti-bid stance has placed them at odds with the Honduran consumer, who has equated a vote against the bid with a vote for higher prices. How the industry can transition from a failed bid to business as usual remains unclear, and without a proactive plan President Zelaya may resort to forceful action that could put Trafigura, and perhaps PDVSA, in charge of fuel imports to Honduras. END COMMENT.

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